

## MEMORANDUM

To: Finance Committee Date: June 28, 2016  
From: Barbara Whitehorn, CFO Prepared by: Frank McGowan,  
Finance & Strategic Services Manager  
Via: Gary Jackson, City Manager  
Subject: Methodology and Limitations of an Economic Impact Analysis

The purpose of this memorandum is to provide information to the Finance Committee about a report prepared by Syneva Economics regarding the methodology and limitations of an economic impact analysis.

Background: In 2015, Tourism Economics conducted an analysis of the economic impact of tourism in Buncombe County, North Carolina for the Buncombe County Tourism Development Authority. The study measured the impact of direct spending, the indirect (supply-chain) effects, and induced (income) effects. Impacts were measured in terms of employment, income, business sales, and tax revenues. (*Tourism Economics*) The study estimated 2014 tourism sales produced approximately \$2.6 billion in revenue when indirect and induced business sales were included.

The City of Asheville engaged Syneva Economics to review and comment on the methodology and limitations of the economic impact analysis. In Syneva's review, the firm noted the economic impact analysis relies on a national input-output model of producing and consuming sectors of an economy and the national model is then adjusted to match a specific local economy. Spending events are then added into the local model and spending flows are tracked through input-output linkages. This produces three major spending pathways – direct, indirect, and induced. The economic impact analysis relies on overlaying the nation-wide behavior of industries onto a local economy and measures the net effects of that spending.

Syneva's review also highlighted limitations of such an analysis. First, an industry sector's input-output linkages are based on a national model that is assumed to be the same as the national average and fixed. Localizing an economic impact "accounts for the mix of supplier and consumers in the local economy, but it does not account for differences within the same industry."

Perhaps more significantly, the economic impact analysis basically measures the estimated beneficial effects of adding spending, however, "it offers no help in addressing the governmental costs associated with those economic events." Unlike spending, there is not a national model to estimate government costs linked to economic events. Fiscal impact analyses would be required to estimate the governmental costs related to specific economic events. There is minimal methodological overlap between fiscal impact analyses and economic impact analyses.

Next Steps: The Finance Committee may wish to review the governmental costs related to supporting tourism in the local economy and the fiscal impact that is not included in economic impact analyses.

Attachments (2):

- 1) Buncombe County NC Tourism Impacts 2014
- 2) Economic Impact Analysis Study - Syneva